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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 002615

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TAGS: [ECON](#) [ETRD](#) [PREL](#) [PGOV](#) [CH](#) [IN](#)  
SUBJECT: CHINA/INDIA: TENSIONS OVER ADB DISPUTE SUBSIDE AS  
INDIA FOCUSES ON TRADE IMBALANCE

REF: BEIJING 01989

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Classified By: Economic Minister Counselor William Weinstein. Reasons  
1.4 (b, d)

¶1. (C) Summary: The India-China border dispute and their recent skirmish at the Asian Development Bank (ADB) over a proposed project in Arunachal Pradesh (AP) "will not get in the way" of bilateral economic relations, according to an Indian diplomat. He said both sides were focused on increasing trade despite tensions over India's ban on Chinese toys and anti-dumping investigations of Chinese-made products. Although bilateral trade increased by 33 percent in 2008, the global financial crisis has hurt trade and exacerbated India's trade imbalance with China, a "major issue" for India. Separately, the ADB country director in China said the dispute over the AP project had initially caused problems for the ADB in China but the situation in Beijing had now calmed down. The immediate cause of this dispute at the ADB was "a mistake" stemming from the ADB's lack of policies on disputed territories. He predicted that the proposed project would likely not go forward. End Summary.

Indian Embassy Downplays Seriousness of ADB Dispute  
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¶2. (C) Indian EmbOff Abishek Singh downplayed the ADB stand-off, arguing that media reports exaggerated the seriousness of the dispute and its potential impact on overall relations. He criticized China's response to the proposed ADB project in AP, commenting that AP was under the complete suzerainty of India and that the ADB project was a social development project that should not be linked to the ongoing border issue. He also pointed out that a mechanism was already in place to deal with the border dispute and that the ADB was not the proper place for China to raise the issue. Singh speculated that China felt obligated to draw from standard talking points and react in line with its broader approach to the border dispute when it discovered the AP project was mentioned in the ADB Country Partnership Strategy paper. He said that the AP project was still alive and that "modalities" for continuing the project were being worked out in Manila.

ADB Official: India-China Skirmish Over For Now  
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¶3. (C) ADB China Country Director Robert Wihtol told Econoff September 4 that the recent China-India skirmish over the AP

project (see reftel) had caused problems for the ADB in China but the situation had now calmed down. The immediate cause of this dispute at the ADB, according to Wihtol, was "a mistake" stemming from the ADB's lack of policies on disputed territories. Wihtol said that this was the first time the ADB had looked at doing work in AP and that, unlike the World Bank, the ADB did not use map disclaimers.

¶4. (C) Wihtol explained that, contrary to media reports, the AP project was only listed in the original Country Partnership Strategy (CPS) paper as illustrative of possible ADB activities during the period covered by the paper. The ADB Board of Directors endorses but does not approve the CPS, and its endorsement of the CPS does not mean that it endorses the individual prospective projects listed in the CPS. Given the sensitivity of the border dispute, Wihtol surmised that the Chinese Executive Director at the ADB was following guidance from China's Ministry of Foreign Affairs when he asked for a delay and subsequently raised concerns when the report was sent to the board for comment in March. The Ministry of Finance, which is in charge of multilateral development bank issues and staffing China's Executive Director office, was most likely not directing the decision, according to Wihtol.

¶5. (C) Wihtol explained that the proposed project would probably not go forward since ADB officials in Manila have likely provided assurances to China that the project would not materialize. He said the ADB had also assured China that the "mistakes" that led to the dispute would not happen again as ADB had since established a policy for dealing with disputed territories. In his August 28 meeting with ADB Vice President Larry Greenwood, Ministry of Finance Vice Minister Li Yong said he "hoped the issue is behind us." Wihtol also

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said ADB President Kuroda was planning to visit China in late October and hoped to garner positive publicity without touching sensitive nerves.

#### Tensions Over Toy Ban and Anti-Dumping

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¶6. (C) Over the last year, tensions have arisen over India's six-month ban on Chinese toys and India's anti-dumping investigations of a number of Chinese-made products. Indian EmbOff Singh argued that the toy ban and anti-dumping cases were "not problems but issues," commenting that these "issues" would not have a major impact on overall China-India relations. He explained that the toy ban was the result of a ruling by India's independent judiciary that left the executive branch no choice but to enforce the ban, while India's anti-dumping measures were "WTO-consistent trade remedies to ensure free trade." Although China protested and threatened retaliation, Singh insisted that the two sides would work through their differences and focus on increasing trade. He pointed to the 33 percent increase in bilateral trade in 2008, to nearly USD 51 billion, as a sign of growing trade relations between India and China.

#### India Focused on Correcting Trade Imbalance

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¶7. (C) Although two-way trade increased in 2008, the global financial crisis has hurt trade and exacerbated the trade imbalance. Singh said India's trade deficit with China was "a major issue" for India, arguing that the current model of Indian exports of raw materials to China and Chinese exports of manufactured goods to India was "unsustainable." According to Singh, the first seven months of 2009 witnessed a 30 percent drop in bilateral trade, with Chinese exports to India falling 15 percent and Indian exports to China plummeting 50 percent. Of the USD 23 billion of bilateral trade in 2009, India's exports accounted for USD 7.4 billion, versus imports of USD 15.6 billion, a deficit of USD 8.2 billion. Singh said India was determined to correct this

trade imbalance and increase its value-added exports to China. India would push for increased Indian exports to China at the September 17-18 India-China-Russia trilateral meeting for officials and businesses in China's Jilin Province, Singh said.

HUNTSMAN